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C O N F I D E N T I A L SECTION 01 OF 02 BAGHDAD 002831

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SUBJECT: IRAQ OIL LEGISLATION, THE ROAD AHEAD: DELAYS AND BUMPY ROADS

REF: BAGHDAD 1972

Classified By: A/DCM Ambassador Gary Grappo for reasons 1.4 (b) & (d)

¶1. (C) Summary: In separate meetings with econoffs, both the chair (KDP) and vice-chair (Da'wa) of the Oil and Gas and National Resources Committee of the Council of Representatives (parliament) reaffirmed that progress on hydrocarbons legislation must wait until the new central government is seated in the spring of next year. Although they provided an update on status of the legislation and reasons for delays in considering it, neither offered a way forward. The legislation appears to have been linked to tensions between the Government of Iraq (GOI) and the Kurdistan Regional Government (KRG) over central government authority versus a more decentralized federal model. The GOI insists on discussing hydrocarbons legislation before addressing disputed internal boundary areas (DIBs), while the KRG insists on addressing DIBs first. For now, the GOI appears to want the hydrocarbons laws more than the KRG; the KRG seems content to block progress, using the laws as leverage on DIBs negotiations and other key issues. End Summary.

Perhaps First Reading of Oil Legislation, but No More

¶2. (C) On October 15, econoffs met separately with two leaders in the Council of Representatives -- Dr. Ali Husayn Balo, the Kurdish chair of the Oil and Gas and National Resources Committee and a member of the Kurdistan Democratic Party (KDP, KRG President Barzani's party), and Dr. Abdul-Hadi Al-Hassani, the Shia vice-chair of the Committee and a member of Da'wa (Prime Minister Maliki's party). Econoffs also had previously met with Vice-Chair Hadi on October 7. (Comment: During these meetings, both members voiced their parties' positions more than their own opinions. Each seems to be strongly partisan -- for example, Vice-Chair Hadi's office is located in the Da'wa party office, not the Oil and Gas Committee's office, in the parliament building. End Comment.)

¶3. (C) Both Chair Balo and Vice-Chair Hadi reaffirmed previous public and private statements that hydrocarbons legislation will not receive serious attention during the current session of parliament. This session ends nominally on December 31 (but work on new legislation is unlikely after mid-November). Despite his view that the legislation cannot be passed before the national elections in January, Vice-Chair Hadi said he will attempt to gather support for a first reading of the four key hydrocarbons laws before the end of the session. (Note: The four laws are the Law of Financial Resources, sometimes called the Revenue Sharing Law; the Oil and Gas Law, sometimes called the Framework Law;

the Iraq National Oil Company (INOC) Reconstitution Law; and the Ministry of Oil Reorganization Law. End Note). In contrast, Chair Balo -- likely continuing the KRG's recent delay tactics on oil issues -- said even a first reading in this session is very unlikely. For his part, Vice-Chair Hadi claimed that the KRG was systematically trying to prevent any reading of the laws this session.

Oil Legislation as a Package; Annexes a Sticking Point

¶14. (C) Both Chair Balo and Vice-Chair Hadi confirmed the KRG is insisting that all four laws be passed as a package (contrary to comments offered previously by KRG Minister of Q(contrary to comments offered previously by KRG Minister of Natural Resources Ashti Hawrami, who said the KRG was willing to consider the Law of Financial Resources by itself.

Hawrami stated that the central government was insisting on considering all four laws only as a package). Both Balo and Hadi said they are willing for parliament to consider all four laws in a single process. Both agree the INOC Law has the most political support, but Chair Balo prefers that parliament consider the Oil and Gas Law first because it must be passed before the INOC Reconstitution Law can take effect.

Both identified the composition of the four annexes to the Oil and Gas Law as a key sticking point in passage of the Law and therefore in passage of all four laws. (Note: These annexes list specific oil and gas fields and assign managerial control of each field to either the central government or the KRG. End Note.) Chair Balo said the composition of these annexes -- which were added to the draft law by the Oil Ministry after it had been approved by the

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Council of Ministers (cabinet) -- is what originally stalled passage of the Oil and Gas Law.

Revenue Sharing Law Simplified; KRG's Share in Question?

¶15. (C) Vice-Chair Hadi agreed with an Embassy proposal that the Law of Financial Resources (aka the "Revenue Sharing Law") could and should be simplified by stripping out portions that conflict with, or are redundant to, the existing Iraqi Financial Management Law. He also said the temporary concession that currently provides the KRG a 17 percent share of budgeted expenditures would expire after this year; the KRG's share would then revert to the original agreement of 12.9 percent, which he believes more closely matches the KRG's population as a share of the total population.

¶16. (C) If the temporary agreement on a 17 percent share is rolled back by parliament in future budgets, the KRG might need to make concessions on hydrocarbons legislation or other political priorities in order to regain that share. The KRG also has a strong incentive to push for passage of the Law of Financial Resources to lock in the higher 17 percent share. Both sides agree that the percentage will be adjusted after an official census, which is currently scheduled for October ¶2010.

Dispute over Federalism, DIBs, and Oil Legislation

¶17. (C) Vice-Chair Hadi lamented that the central government and the KRG cannot agree on whether to discuss hydrocarbons legislation or DIBs first. He said the central government wants to discuss the legislation first, while the KRG insists on discussing DIBs first. Chair Balo adamantly stated that the current dispute between the central government and the KRG over hydrocarbons legislation is part of a larger debate over the shape of federalism. He expressed hope that the USG would facilitate discussions to help resolve the dispute, but said the KRG wanted to wait until the new central government was formed after the January national elections. In a

similar vein, Vice-Chair Hadi said he hoped the USG could help facilitate passage of the hydrocarbons legislation.
(Comment: Asking the USG to intervene to help one side or the other see the light is a familiar theme. End Comment.)

¶8. (C) Comment: The KRG continues to seek to create facts on the ground, confident that it can develop the Kurdistan region's oil sector without central government assistance or approval. Private conversations with KRG Minister of Natural Resources Hawrami suggest that the KRG is largely unconcerned about the fate of hydrocarbons legislation. The central government, on the other hand, sees the legislation as necessary to improving investment conditions in Iraq's oil sector. The GOI appears to want the hydrocarbons laws more than the KRG; the KRG seems content to block progress on the legislation, using it as leverage in negotiations over DIBs and other issues it values. Personalities also play a role -- Hawrami is loathe to make any concessions to Oil Minister Hussain Shahristani, whom he dislikes and vilifies at seemingly every opportunity.

¶9. (C) Neither Chair Balo nor Vice-Chair Hadi offered thoughts on how to prepare the hydrocarbons legislation for early passage during the next session of parliament. The legislation appears to have been linked to GOI-KRG tensions over central government authority versus a more decentralized federal model. We will continue to seek opportunities to provide technical assistance and other advice -- encouraging key officials to examine successful national oil companies in other countries and to adopt best practices in drafting the Oil and Gas Law and the INOC Reconstitution Law -- to prepare for more meaningful debate down the road. We will continue to press both sides to reopen a discussion of the four annexes to the Oil and Gas Law, but it is increasingly clear that serious discussion is unlikely until the new government is formed next year. End Comment.

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